

Message Text

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TO AMEMBASSY OTTAWA

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FOLLOWING REPEAT DACCA 1826 ACTION SECSTATE 07 APR 77

QUOTE

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PASS AGRICULTURE AND AID/ASIA

E.O. 11652: N/A
TAGS: EAGR EAID BG
SUBJECT: BDG REQUEST FOR ADDITIONAL TITLE I COMMODITIES

REFS: A. DACCA 1539 B. DACCA 1580 C. DACCA 1655 D. DACCA 1701
E. FY 77 TITLE I AGREEMENT F. STATE 064401 G. STATE 065042
H. DACCA 1669

SUMMARY: MESSAGE REPORTS NEW BDG OFFTAKE PROJECTIONS AS WELL
AS NEW IMF PROJECTIONS THROUGH DECEMBER 31, 1977. SINCE
PREVIOUS RECOMMENDATIONS OF TITLE I AMENDMENT FORWARDED TO
WASHINGTON (REF C) WE HAVE LEARNED OF BDG REQUEST TO CANADA FOR
300,000 TONS CANADIAN WHEAT. OUR ANALYSIS OF IMPACT OF
POTENTIAL CANADIAN ADDITIONALITY PLUS NEW OFFTAKE DATA LEAVES
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US WITH CONCLUSION THAT IF BOTH USG AND CANADA WERE TO MEET
BDG ADDITIONAL REQUESTS, GOVERNMENT STOCKS ON HAND AT THE END
OF THE CALENDAR YEAR WOULD LEAVE TOO LARGE STOCKS IN BDG
WAREHOUSING FACILITIES TO PERMIT AMAN (MAIN RICE CROP)
PROCUREMENT. WITH THIS IN MIND WE RECOMMEND WASHINGTON COORDINATE WIT
H
OTTAWA SO THAT TOTAL ADDITIONAL TONNAGE FROM NORTH AMERICA NOT
EXCEED 150,000 TONS. WE RECOMMEND ALSO THAT AN ATTEMPT
BE MADE TO REACH AGREEMENT WITH OTTAWA ON SELF-HELP
LANGUAGE WHICH COULD BE INCORPORATED IN BILATERAL

AGREEMENTS OF BOTH COUNTRIES WITH THE BDG. END SUMMARY.

1. THIS MESSAGE DISCUSSES THE JUSTIFICATION FOR A SUBSTANTIAL USG RESPONSE TO THE BDG'S REQUEST FOR ADDITIONAL FOODGRAIN SHIPMENTS (REF C) THROUGH DECEMBER 31, 1977 AND ASSESSES THE PROBABILITY THAT THE BDG WOULD ACCEPT MORE EXPLICIT LANGUAGE AND QUANTIFIED TARGETS IN THE SELF HELP PROVISIONS OF AN AMENDED AGREEMENT (REF E).

2. THE ANSWERS TO BOTH POINTS WILL BE CONTINGENT UPON THE PENDING CANADIAN RESPONSE TO THE BDG'S NEW REQUEST FOR AN URGENT SHIPMENT OF 300,000 TONS OF WHEAT BY JUNE 30, 1977 (REF D). THE CANADIAN RESPONSE MAY BE DECIDED IN OTTAWA WITH LITTLE CONSULTATION WITH THE HIGH COMMISSION IN DACCA, SO MISSION SUGGESTS THAT WASHINGTON DISCUSS THE MATTER DIRECTLY WITH OTTAWA. (CANADIAN HIGH COMMISSIONER HAS TOLD AMBASSADOR THAT HE EXPECTS TO BE UNDER STRONG PRESSURE FROM OTTAWA TO SHIP FAIRLY LARGE AMOUNTS OF WHEAT TO BANGLADESH.)

3. RATION SYSTEM OFFTAKES. ON APRIL 4 THE BDG FOOD MINISTRY PROVIDED USAID WITH DATA WHICH PROJECTS OFFTAKES FOR THE PERIOD MARCH THROUGH DECEMBER 1977 TO 1,510,000 TONS. FYI. THE BDG AND WFP HAVE NOT REACHED AGREEMENT ON THE FOODGRAIN FORECAST AND THE STICKING POINT IS THE OFFTAKE LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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PROJECTION. END FYI.

SUCH A TOTAL WOULD BE CONTRARY TO THE THRUST OF REF (E) SELF HELP PROVISIONS WHICH CALL FOR A PHASED REDUCTION OF THE BDG RATION SYSTEM BEGINNING FY 78. FOR THE MARCH-DECEMBER PERIOD WE HAVE COMPARED THE BDG PROJECTIONS WITH THE LAST THREE YEAR OFFTAKE AVERAGE OF 1,351,000 TONS, THE MARCH THRU DECEMBER 1976 OFFTAKE TOTAL OF 1,071,000 TONS AND THE CURRENT RESIDENT IMF REP'S PROJECTION FOR MARCH THRU DECEMBER, 1977 OF 1,250,000 TONS. WE AGREE WITH THE IMF PROJECTION FOR THE REASONS THAT THE THREE REAY AVERAGE IS SKEWED BY THE 1974/75 FAMINE AND THE 1976 OFFTAKES WERE ABNORMALLY DOWN DUE TO LOW MARKET PRICES. WITH THE ASSUMPTIONS WE EMPLOYED IN REF (C) PARA 4, (AND AS CORRECTED REF (H),) AND IF ONLY THE OFFTAKE PROJECTIONS ARE VARIED, WE ESTIMATE THE FOLLOWING TWO 12/31/77 CLOSING STOCK POSITIONS: (A) WITH THE BDG 1,510,000 OFFTAKE PROJECTION -- 236,000 TONS: AND (B) WITH THE 1,250,000 OFFTAKE PROJECTION--496,000 TONS.

4. REVISED 12/31/77 CLOSING STOCK ESTIMATE. IN OUR PROJECTION REF (C) WE INCLUDED ONLY THE U.S. CURRENTLY SIGNED 200,000 TONS AND THE CNADIAN HISTORICAL NORM OF 150,000 TONS. WHEN WE ASSUME AN ADDITIONAL 200,000 TONS FROM THE U.S. AND A POSSIBLE ADDITIONAL 150,000 TONS FROM CANADA THE TWO CLOSING STOCK POSITIONS FOR 12/31/77 BECOME: (A) 586,000 TONS BASED UPON THE BDG

OFFTAKE PROJECTION; AND (B) 846,000 TONS BASED UPON THE 1,250,000 OFFTAKE PROJECTION.

5. DECEMBER STOCK POSITION AND THE FY 78 PROCUREMENT DRIVE. THE BDG'S STOCK POSITION SHOULD REACH ITS LOWEST POINT IN THE ANNUAL CYCLE DURING THE MONTH OF DECEMBER PREPARATORY TO THE BDG DOMESTIC PROCUREMENT DRIVE OF THE AMAN HARVEST. A MINISTRY OF FOOD OFFICIAL INFORMALLY ADVISED US THAT 500,000 TONS IS A REASONABLE STOCK LEVEL AT THIS TIME OF YEAR. ON THIS BASIS, WE CONCLUDE THAT THE U.S. AND CANADA SHOULD NOT BOTH RPT NOT BOTH SHIP THE ABOVE STATED ADDITIONAL TONNAGE OF 200,000-- AND 150,000 TONS RESPECTIVELY. AT THE OUTSIDE, COMBINED TONAGE FROM THE U.S. AND CANADA SHOULD NOT EXCEED 150,000 WHICH WOULD RESULT LIMITED OFFICIAL USE
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IN A COMFORTABLE CLOSING STOCK ON 12/31/77 OF 646,000 TONS.

6. THE SELF HELP PROVISIONS IN AN AMENDED AGREEMENT.

A. IN RESPONSE TO REFS (F) AND (G), THE US NEGOTIATING TEAM ATTEMPTED TO INCLUDE MORE SPECIFIC AND QUANTIFIED TARGETS WITH RESPECT TO REDUCTION OF THE RATION SYSTEM IN THE ORIGINAL AGREEMENT. WHILE THE BDG WAS ADAMANT (REF A, PARA 2) IN ITS REFUSAL TO CONSIDER BINDING LANGUAGE ON REDUCING THE RATION SYSTEM IN THE THRID SESSION, THE US TEAM PUT THE BDG ON NOTICE WE WOULD RETURN TO THIS SUBJECT IN THE CONTEXT OF AN AMENDED AGREEMENT. HOWEVER, THE CONTEXT HAS SHIFTED FROM A BDG REQUEST OF 300,000 TONS THEN TO A PROBABLE MORE MODEST USG RESPONSE NOW. WHILE THE LOWER TONNAGE MAKES IT IMPROBABLE THE BDG WILL ACCEPT SPECIFIC TARGETS, WE BELIEVE WE SHOULD RESUME NEGOTIATIONS AS WE SAID WE WOULD WITH EXPLICIT LANGUAGE.

B. OUR STRATEGY WOULD BE TO PROPOSE LANGUAGE IN THE TEXT OF THE AGREEMENT WHICH WOULD REQUIRE AN ABSOLUTE REDUCTION OF OFFTAKES IN THE STATUTORY RATION SYSTEM OF 10,000 TONS PER MONTH BEGINNING JULY 1, 1977 OVER THE AVERAGE MONTHLY OFFTAKE FOR THE PRECEDING THREE YEARS. WE WOULD SAY THAT IN KEEPING WITH THE ORIGINAL FY 77 TITLE I AGREEMENT, THE BDG COULD ACCOMPLISH THIS REDUCTION, FOR EXAMPLE, BY INCREADING RATION PRICES, ELIMINATING SELECTED CATEGORIES OF RATION CARDS AND/OR REDUCING THE AMOUNT OF RATION PER CARD HOLDER. TO FACILITATE THIS TRANSITION, THE MISSION WOULD ALSO PROPOSE LANGUAGE IN THE AGREED MINUTES WHICH WOULD ALLOW THE BDG TO MAKE AN OFFSETTING INCREASE IN MODIFIED RATION SYSTEM OFFTAKES, OR, PREFERABLY, IN OPEN MARKET OPERATIONS. IF THESE PROPOSALS PROVIDE TO BE UNACCEPTABLE TO THE BDG, AS THEY MAY BE, WE COULD THEN FALL BACK TO THE LANGUAGE SUGGESTED REF (C), PARA 8.

7. COORDINATION WITH OTTAWA

WE RECOMMEND THAT WASHINGTON INFORM OTTAWA OF THE ANALYSIS CONTAINED IN THIS MESSAGE REGARDING THE TOTAL ADDITIONAL REQUIREMENT THROUGH 12/31/77 AND, ALSO, OF THE USG

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INTENTION TO ALTER THE SELF HELP PROVISIONS AS SUGGESTED ABOVE. FURTHER WE RECOMMEND THAT THE U.S. ATTEMPT TO COORDINATE WITH OTTAWA ON THE QUESTION OF TOTAL TONNAGE AND AN APPROPRIATE SHARE FOR EACH COUNTRY SO THAT THE TOTAL DOES NOT EXCEED THE 150,000 TONS STATED IN PARA 5 ABOVE. FINALLY, THE MISSION RECOMMENDS THAT ANY USG INITIATIVE INCLUDE THE SUGGESTION THAT THE CANADIAN GOVT ADOPT CONDITIONS IN THEIR BI-LATERAL AGREEMENT WITH THE BDG SIMILAR TO SELF HELP PROVISIONS.

8. OUR ASSESSMENT IS THAT, IF THE CANADIANS WILL NOT AGREE TO A TOTAL OF 150,000 TONS DIVIDED BETWEEN THE U.S. AND CANADA AND TO EQUIVALENT SELF HELP LANGUAGE IN THEIR BI-LATERAL AGREEMENT, WE MAY REASONABLY EXPECT THE BDG TO ACCEPT A CANADIAN COMMITMENT IN PREFERENCE TO OUR OWN.

9. COMMODITY COMPOSITION. THE IMF REPRESENTATIVE IS BECOMING INCREASINGLY CONCERNED ABOUT WHAT HE REGARDS AS AN IMPENDING SHORTAGE OF RICE FOR DISTRIBUTION THROUGH THE RATION SYSTEM OR FOR OPEN MARKET OPERATIONS. WHILE HE REGARDS THE 25 PERCENT PRICE INCREASE TO DATE AS HEALTHY AND DESIRABLE, AND WHILE HE LOOKS FORWARD WITH ANTICIPATION TO A FURTHER INCREASE OF 25 PERCENT BY SEPTEMBER, HE IS CONCERNED THAT UNLESS THE PDG IS CAPABLE OF MOVING 70 TO 80,000 TONS OF RICE IN EACH SEPTEMBER, OCTOBER AND NOVEMBER THE PRICE OF RICE WILL DOUBLE IN OCTOBER. A DOUBLING WOULD BUST THE STANDBY AGREEMENT ASSUMPTION OF A 10 PERCENT INFLATION RATE AND COULD HAVE SEVERE DOMESTIC CONSEQUENCES. THE IMF REP HAS, THEREFORE, SUGGESTED TO THE BDG THAT IT ASK THE USG FOR AT LEAST 150,000 TONS OF RICE TO BE SHIPPED ASAP. AS SUGGESTED REF (B) WE ARE SOMEWHAT MORE RELAXED ABOUT THE RICE PRICE SITUATION PROVIDED THAT THE PRICE INCREASE COMES IN APRIL RATHER THAN AUGUST OR SEPTEMBER (WHICH IS THE ONSET OF THE LEAN SEASON). FURTHERMORE, WE BELIEVE THAT THE CROSS ELASTICITY OF DEMAND OF WHEAT FOR RICE IS SUFFICIENTLY CLOSE TO UNITY THAT ADEQUATE WHEAT SUPPLIES AND AGGRESSIVE OPEN MARKET OPERATIONS WOULD HALT INCREASING PRICES. NEVERTHELESS, THERE IS ENOUGH IN THE IMF REP'S CASE TO WARRANT CONSIDERATION OF A LARGE QUANTUM PARBOILED RICE

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SHIPMENT BY THE U.S. IN ANY AMENDED AGREEMENT. IF THE CANADIAN GOVERNMENT IS NOT WILLING TO INCREASE ITS PROSPECTIVE ALLOCATION OF FOODGRAIN TO THE BDG THIS YEAR THEN WE BELIEVE THE USG COULD SUPPLY THE TOTAL 150,000 TONS WITH HALF OF THIS BEING IN PARBOILED RICE AND HALF IN WHEAT.

10. WHILE WASHINGTON IS EXPLORING CANADIAN INTENTIONS THE

MISSION WILL BE REVIEWING OFFTAKE FIGURES FOR MARCH WHICH WILL
BE AVAILABLE NEXT WEEK AND WILL ALSO CONTINUE TO ANALYZE THE
IMPACT OF THE CURRENT SERIES OF TORNADOES TO SEE IF THE DAMAGE
CALLS FOR ANY REASSESSMENT OF BANGLADESHI FOODGRAIN SHIPMENTS.

11. PLEASE ADVISE.

DECONTROL: APRIL 5, 1978.

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